



Pennsylvania Lottery Profit Report

As Required by Act 201 of 2014

2021

The Pennsylvania Lottery remains the only state lottery that designates all of its proceeds to programs that benefit older residents. Since its inception in 1971 through June 30, 2021, the Pennsylvania Lottery had contributed over \$32 billion to senior programs that include property tax and rent rebates; free and reduced-fare transit; the low-cost prescription drug programs PACE and PACENET; care services; and the 52 Area Agencies on Aging, including full- and part-time senior centers throughout the state.

By law (Act 97 of 2019), the Pennsylvania Lottery is currently required to return 20 percent in net profits for programs that benefit older Pennsylvanians. Using the reduction of the minimum rate of return, the Lottery is able to execute a diverse product portfolio to maximize profits for senior programs. Even as the mandated rate of return has dropped, Lottery sales and profits have increased.

Act 53 of 2008 granted the Pennsylvania Lottery temporary relief from the mandated 30 percent minimum return that had been in place since the Lottery's inception. The Lottery was given the latitude to return a minimum of 27 percent through fiscal year 2010-11. Act 23 of 2011 extended the 27 percent minimum return through fiscal year 2014-15. Act 201 of 2014 set the minimum return percentage at 25 percent starting with fiscal year 2014-15. Act 97 of 2019 set the minimum return percentage at 20 percent starting with fiscal year 2019 and continuing through June 30, 2024. (Note: Per Act 47 of 2018, iLottery is excluded from the profit margin requirement.)

Because the lottery game development process can in some cases take up to a year, it is important for the Lottery to have some level of certainty regarding the minimum return percentage requirement. Increasing player demand for higher payout (i.e. lower profit margin) games will require extending, or preferably eliminating, the minimum profit margin requirement that expires in 2024. Without it, and the flexibility to offer the games Lottery players want, the Lottery will be forced to rein in payouts, which will have a negative impact on sales and profits.

This annual profit report is required by Act 201 of 2014. This profit report includes analysis of fiscal year 2020-21, and a look ahead to 2021-22.

FISCAL YEAR 2020-21 ANALYSIS

Although the Pennsylvania Lottery faced many challenges in fiscal year 2020-21, including the COVID-19 pandemic, the Lottery recorded its best sales and best profit year in its 49-year history.

The record \$5.30 billion (\$5,302,468,750) in traditional sales resulted in an increase of \$833.0 million, or 18.64 percent, compared to the prior fiscal year.

For the 10th consecutive year, the Lottery recorded profits exceeding \$1 billion. Fiscal year 2020-21 net profits of \$1.30 billion (\$1,302,616,260) set a new profit record as well. Net revenues increased by \$160.8 million, or 17.55 percent, compared to the prior fiscal year.

The Lottery paid a record \$3.54 billion in traditional prizes, meaning 66.8 cents of every Lottery sales dollar went back to players. A total of 97 winning tickets of \$1 million or more were paid to players during the fiscal year. More than \$772.1 million in prizes were paid out to winners on online Lottery games. More than 9,600 licensed Lottery retailers statewide earned over \$306.7 million in regular commissions and over \$22.3 million in additional retailer incentives for a total of over \$329 million in total sales and

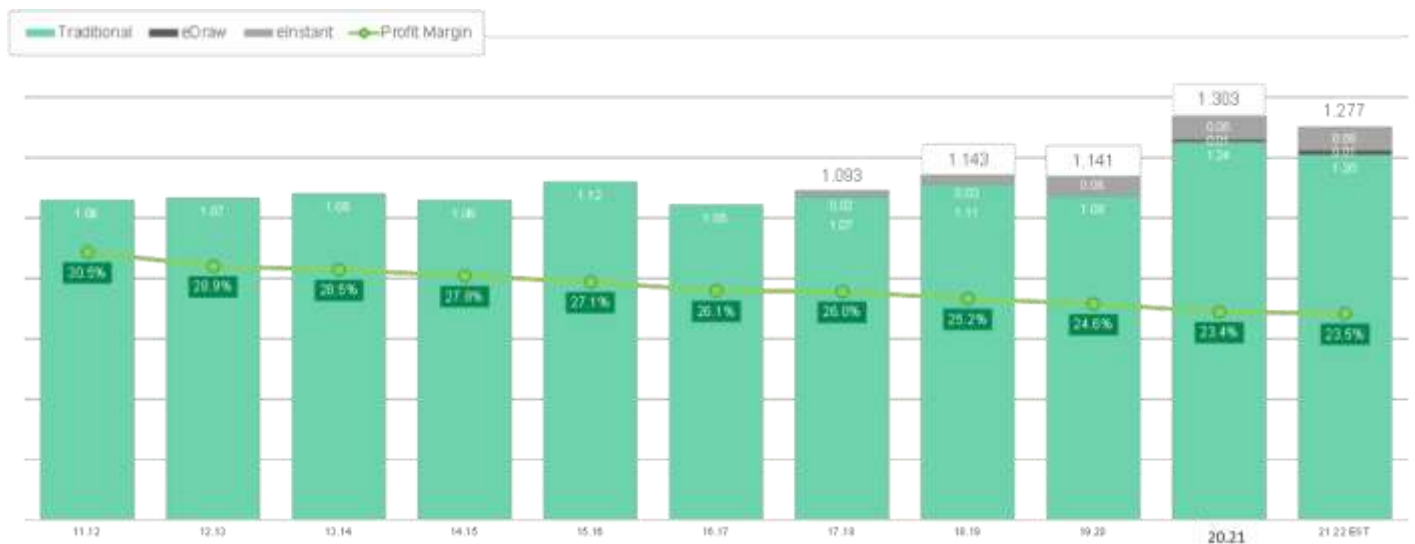
bonus commissions, which equates to 6.21 percent commission on traditional sales. Total retailer commissions increased by \$71.6 million, or 27.82 percent, over the prior fiscal year. Operating costs remained one of the lowest in the country at 1.84 percent of traditional ticket sales.

The Pennsylvania Lottery remains one of the best-performing lotteries of the 45 U.S. lotteries, ranking 5th in population, 7th in traditional ticket sales, and 7th in profits in fiscal year 2019-20. (Source: The most recent industry statistics available, LaFleur’s Almanac 2021). It should be noted that Pennsylvania would rank 6th in profits if transfers from video lottery terminal (VLT) revenues were not included in Maryland’s profit totals. The PA Lottery once again was a highly ranked performer in the industry in per capita Scratch-Off sales, ranking 5th in the U.S.

LOTTERY PROFIT MARGIN IN FISCAL YEAR 2020-21

The Lottery ended fiscal year 2020-21 with a net profit margin of 23.4 percent, down from the 24.6 percent recorded in fiscal year 2019-20. It should be noted that the Lottery reached record sales and profits in a year in which the profit margin was a record low of 23.4 percent.

PA LOTTERY PROFITS (\$M) AND % RETURN FY 2011-12 to FY 2020-21



Note: The Total Net Revenue as reported on the comparative financial statements is made up of the Net Traditional Revenue, Net Gaming Revenue, and the Retail Incentive Program expense. The profit margin requirement pertains only to the Net Traditional Revenue.

It should also be noted that none of the states ranked above Pennsylvania in profit have a profit margin mandate.

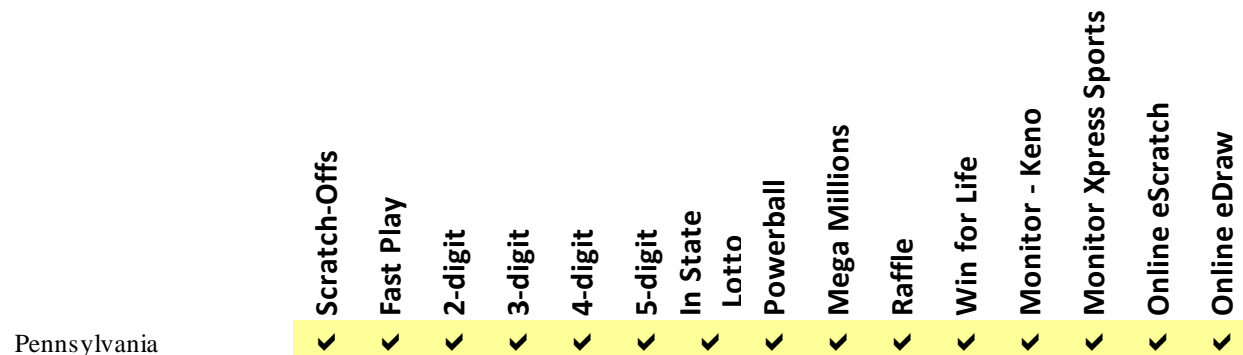
Pennsylvania Ranks 6 th in Net Income - <i>None of the States Ranked Above Pennsylvania Have Mandated Profit Percentage Requirements</i>		Profit % Mandate?
	1. New York	NO
	2. Florida	NO
	3. California	NO
	4. Texas	NO
	5. Georgia	NO
	6. Pennsylvania	YES

PA is one of only 7 states that still have a profit percentage requirement: Delaware, Louisiana, New Jersey, New Mexico, Rhode Island and Tennessee.

State lotteries with the highest profit per capita in absolute dollars are among the states with the lowest percentage return rates.
- Source: October 2015 NASPL Study

STATE OF THE LOTTERY GAME PORTFOLIO IN FISCAL YEAR 2020-21

The Pennsylvania Lottery maintains a very diverse product portfolio, providing lottery games that meet an equally diverse consumer population. The Lottery’s product portfolio continues to add to that diversity with recent additions such as a horse racing-themed monitor game named Derby Cash in fiscal year 2019-20, Xpress Sports monitor games in fiscal year 2018-19, Keno and iLottery in fiscal year 2017-18, and Fast Play games in fiscal year 2016-17.



Scratch-Offs

Scratch-Off games set a new sales record in fiscal year 2020-21 of \$3.76 billion, up \$547.7 million, or 17.3 percent, from the previous year.

Every Scratch-Off price point above \$2 increased sales over the previous year. The \$10, \$20 and \$30 price points were up a combined \$558.6 million or 29.6 percent. The \$5 price point was up \$27.8 million or 3.0 percent. The \$1, \$2 and \$3 price points continued their downward trend; together the three price points were down \$4.3 million or -1.2 percent. The Scratch-Off sales mix continues to shift toward the

higher price point (i.e. higher payout) games. Higher price point Scratch-Off games have a lower profit margin; however, because of their high sales volume, they generate more profit dollars.

The following table shows the sales migration toward the higher price point games over the last eight fiscal years. As a result, the average selling price has increased over the previous in every fiscal year. In fiscal year 2020-21, the \$5 and above price points accounted for 90.4 percent of all Scratch-Off sales.

Scratch-Offs - Percentage of Sales by Price Points

FY	\$1	\$2	\$3	\$5	\$10	\$20	\$30	Avg. Selling Price
FY.1213	5.0%	9.8%	7.0%	30.6%	19.3%	28.3%		\$4.59
FY.1314	4.5%	8.7%	7.0%	29.8%	19.7%	25.9%	4.5%	\$4.87
FY.1415	4.1%	7.5%	6.3%	30.5%	20.0%	24.7%	6.8%	\$5.12
FY.1516	3.9%	7.2%	5.7%	32.6%	21.1%	22.1%	7.4%	\$5.15
FY.1617	3.6%	6.4%	5.4%	31.9%	20.6%	23.2%	8.9%	\$5.41
FY.1718	3.4%	5.8%	5.3%	31.0%	20.8%	22.8%	10.9%	\$5.61
FY.1819	3.1%	5.4%	4.9%	29.7%	21.9%	22.9%	12.2%	\$5.85
FY.1920	2.3%	4.6%	4.6%	29.1%	23.1%	23.4%	13.0%	\$6.30
FY.2021	1.8%	3.9%	3.9%	25.3%	25.9%	24.4%	14.7%	\$7.46

The Scratch-Off game category accounted for 70.9 percent of total traditional sales in fiscal year 2020-21. Most of that increased share of the product mix came from the 29.6 percent growth in sales of the \$10 and above price points.

Multi-State Lotto: Powerball®, Mega Millions® and Cash4Life®

The multi-state lotto category increased by \$130.4 million, or 47.7 percent, over the previous fiscal year. Powerball® sales increased by \$55.9 million or 40.1 percent. Mega Millions® increased by \$70.5 million or 65.3 percent. The Lottery saw sales increases in both games despite both of their starting advertised jackpots being reduced from \$40 million to \$20 million. The table below shows that average jackpots and maximum jackpots improved over the previous year for both games.

Powerball Jackpots by Fiscal Year

FY	Average Jackpot	Max Jackpot
FY.1213	\$120M	\$600M
FY.1314	\$118M	\$425M
FY.1415	\$103M	\$500M
FY.1516	\$166M	\$1500M
FY.1617	\$159M	\$478M
FY.1718	\$174M	\$700M
FY.1819	\$203M	\$750M
FY.1920	\$106M	\$394M
FY.2021	\$144M	\$730M

Mega Millions Jackpots by Fiscal Year

FY	Average Jackpot	Max Jackpot
FY.1213	\$43M	\$190M
FY.1314	\$98M	\$636M
FY.1415	\$94M	\$321M
FY.1516	\$101M	\$390M
FY.1617	\$77M	\$540M
FY.1718	\$147M	\$521M
FY.1819	\$219M	\$1600M
FY.1920	\$142M	\$410M
FY.2021	\$167M	\$1000M

The multi-state Cash4Life® group changed Cash4Life® from twice weekly to daily drawings on July 1, 2019, following up on the success of Pennsylvania's Match 6 Lotto move from twice weekly to daily drawings. After being up 53.4 last fiscal year due to the change to daily draws, Cash4Life® has

continued that positive growth in year two of daily drawings. Cash4Life® sales were up \$3.9 million, or 15.3 percent, in fiscal year 2020-21.

The multi-state game category accounted for \$403.4 million, an increase of \$130.4 million, or 47.7 percent, over previous fiscal year. The category accounted for 7.6 percent of total traditional sales in fiscal year 2020-21.

In-State Lotto: Cash 5 with Quick Cash, Match 6 Lotto and Treasure Hunt

Overall, the in-state lotto game category was up \$19.4 million, or 7.6 percent, in fiscal year 2020-21 over the prior fiscal year. Cash 5 sales were up \$140,000 or 0.1 percent. Treasure Hunt sales were up \$4.1 million or 14.3 percent. Match 6 sales were up \$15.2 million or 11.6 percent. The in-state lotto game category accounted for \$272.4 million, or 5.1 percent, of total traditional sales in fiscal year 2020-21.

On March 23, 2020, the Lottery revamped Cash 5, its longest-running jackpot game. The game is now a hybrid game with two components: the rolling jackpot feature, as well as a new instant-win feature called Quick Cash. Long trending declining Cash 5 sales required a change that would support the jackpots that Cash 5 players have come to expect. The Quick Cash feature is designed to reward players instantly with the understanding that players will churn a portion of their instant winnings back into the game, thus generating incremental sales. To date, the new game has generated improved sales and profits.

PICK Games: PICK 2, PICK 3, PICK 4, PICK 5 and Wild Ball

PICK games ended fiscal year 2019-20 up \$106.8 million, or 18.6 percent, as compared to the prior year. The Wild Ball feature for the PICK family of games continued to be a bright spot in this segment of the game portfolio, generating \$47.5 million in new sales. Wild Ball accounted for about 7.0 percent of PICK sales. PICK games accounted for \$681.4 million, or 12.8 percent, of total traditional sales in fiscal year 2020-21.

The category growth of 18.6 percent was the third year in a row of positive growth for the category. It was also the largest percentage of year-over-year growth since fiscal year 1981-82.

Millionaire Raffle

The Lottery sold all of the 500,000 tickets available for the New Year's Eve Millionaire Raffle #30. Sales were aided by eight weekly drawings in which one prize of \$100,000 was awarded each week.

Fast Play

Sales of Fast Play games totaled over \$143.9 million in fiscal year 2020-21. This was an increase of \$41.5 million, or 40.5 percent, over fiscal 2019-20. The \$30 price point was added in fiscal year 2020-21. In addition to the \$9.6 million that the \$30 price point added to sales, the \$20 price point was up 69.1 percent and the \$10 price point was up 39.0 percent from the prior fiscal year.

Fast Play accounted for 2.7 percent of total traditional sales in fiscal year 2020-21.

Monitor Games (Keno and Xpress Sports)

The Lottery began selling Keno in May 2018. In 2020-21, Keno sales generated over \$41.6 million, down \$5.4 million, or -11.6 percent, over fiscal year 2019-20.

Xpress Sports, including football- and car racing-themed drawings, launched in August 2018. The Lottery replaced the football-themed game with horse racing in November 2019. Xpress Sports games added \$13.3 million in sales for fiscal year 2020-21, up \$6.8 million, or 105.4 percent, over fiscal year 2019-20.

Monitor games in total contributed \$54.9 million in fiscal year 2020-21, up \$1.4 million or 2.6 percent. They accounted for 1.0 percent of the traditional game portfolio.

Monitor games were negatively impacted more than any other Lottery category in fiscal year 2020-21 because the category relies heavily on retailers that are bars and taverns whose hours were severely curtailed due to the restrictions that were necessary to mitigate the COVID-19 pandemic.

iLottery

Fiscal year 2020-21 was the third full year of iLottery existence. In fiscal year 2020-21, iLottery generated \$887.0 million in eInstant play which was \$158.2 million, or 21.7 percent, more than the previous year. Online eDraw game sales added \$21.4 million, which was \$17.2 million, or 414.8 percent, more than the previous year. In total, iLottery added \$84.7 million in profit, which was \$21.3 million, or 33.6 percent, more than the prior fiscal year.

The Lottery continues to expand the draw games available for online purchase, which now includes Powerball®, Mega Millions®, Cash4Life® and Treasure Hunt. There are plans to add Match 6, the PICK games, Keno, Derby Cash Horse Racing, and Cash 5 with Quick Cash, as well as subscription play and electronic playslips, over the next two fiscal years.

FISCAL YEAR 2021-22 AND BEYOND

The Lottery acknowledges that COVID restrictions likely played a significant role in the record-breaking sales and profit growth in FY 2020-21. As a result, the Lottery is projecting negative year-over-year sales and profit growth in FY 2021-22 and then a return to positive growth in FY 2022-23.

The PA Lottery projects traditional sales of \$5.08 billion in fiscal year 2021-22, a decrease of \$222.0 million or -4.19 percent. Additionally, the Lottery projects iLottery eScratch play of \$781.09 million, a decrease of \$105.9 million or -11.94 percent, and online eDraw sales of \$34.5 million, an increase of \$13.1 million or 61.36 percent.

Fiscal year 2021-22 profits from traditional games sales (i.e. excluding online sales) are projected to decrease by more than \$22.5 million, or -1.85 percent, to \$1.20 billion. iLottery profits are projected to decrease by \$3.05 million, or -3.61 percent, for a total of \$81.64 million. Combined profits are projected to reach \$1.28 billion for fiscal year 2021-22, which would be a decrease of \$25.60 million or -1.97

percent.

Estimated sales and profits for fiscal year 2021-22 and the next five years are shown in the tables below.

Sales Categories (\$,000)	2020-21	2021-22 Bdgt	2022-23 Est	2023-24 Est	2024-25 est	2025-26 Est	2026-27 Est
Traditional Sales	5,302,469	5,080,467	5,248,682	5,434,291	5,627,992	5,811,844	5,995,765
Scratch-off	3,757,858	3,637,890	3,781,211	3,931,126	4,087,933	4,251,943	4,423,481
Fast Play	143,898	139,251	143,340	147,590	152,008	156,600	161,371
Draw Games	1,345,800	1,251,159	1,269,877	1,298,608	1,328,236	1,341,094	1,346,217
Monitor Games	54,913	52,167	54,254	56,967	59,815	62,208	64,696
eScratch Play	886,996	781,088	921,057	1,068,426	1,218,006	1,364,167	1,500,583
eDraw Sales	21,394	34,521	67,150	81,424	96,141	109,859	124,226

Profit (\$,000)	2020-21	2021-22 Bdgt	2022-23 Est	2023-24 Est	2024-25 est	2025-26 Est	2026-27 Est
Combined	1,302,616	1,277,015	1,325,895	1,372,862	1,421,011	1,462,577	1,501,217
Traditional	1,217,926	1,195,380	1,219,719	1,248,515	1,278,191	1,302,016	1,323,579
Retailer Incentives	-22,347	-26,700	-28,035	-29,437	-30,909	-32,454	-34,077
Scratch-off	709,529	705,751	725,992	746,914	768,531	790,861	813,920
Fast Play	27,182	27,015	27,521	28,042	28,578	29,128	29,692
Draw Games	503,329	479,194	483,823	492,172	500,745	502,910	502,139
Monitor Games	233	10,120	10,417	10,824	11,245	11,571	11,904
iLottery Combined	84,690	81,636	106,177	124,347	142,821	160,562	177,638
eScratch	82,696	68,345	80,592	93,487	106,576	119,365	131,301
eDraw	1,995	13,291	25,584	30,860	36,245	41,197	46,336
Total Traditional Profit %	22.97%	23.53%	23.24%	22.97%	22.71%	22.40%	22.08%

To meet its commitment in fiscal year 2021-22 and beyond, the PA Lottery has set the following growth strategies:

- Continuing to aggressively manage its product portfolio. This includes:
 - Expanding the portfolio of draw games available for online purchase.
 - Evaluating prize structures and other product features of its entire game portfolio.
 - Adding play value to products and increasing player engagement through second-chance drawings, promotions, interactive elements, and cross product category promotions.
- Expanding points of distribution. This includes:
 - Recruiting quality retailers, especially locations optimal for monitor games.
 - Expanding the Lottery's partnership with key corporate chains that have the potential to add hundreds more selling locations.
- Continuing to optimize the Lottery's presence at retail. This includes:
 - Increasing game displays, signage, branding and promotional elements through the Retailer Incentive Program, established by Act 42 of 2017.
- Finally, measuring product performance and marketing effectiveness to optimize Lottery sales and profits, and identify new opportunities for growth.

The PA Lottery also continues to face increased competition, in both legal as well as illegal forms, such as Games of Skill. Because of their proliferation and local presence, Games of Skill are a significant threat to the Lottery and the vital senior programs that it funds. According to our analysts, as of August

2, 2021, the known count of 10,162 Games of Skill machines in 2,999 PA Lottery retailers (30.3 percent of the Lottery retailer network) has a negative impact on statewide yearly traditional sales of approximately \$145 million. Additionally, Games of Skill continue to hamper the Lottery's ability to grow the number of Lottery retail outlets offering monitor games (Keno and Xpress Sports).